Suriname

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First Citizens
Research & Analytics

COUNTRY		CREDIT RATING			
Real GDP growth (%) 2016	-7.00%	S&P Foreign Currency	B+/Negative	Major Trade Partners	US; T&T;EU;China;Brazil;UAE;Canada;Switzerland
Next General Election	May-20	Fitch Foreign Currency	B+/Negative	Major Exports	Gold; Alumina; Oil; Other
Exchange Rate	7.14	Moody's Foreign Currency	Ba3/Stable	GDP Composition	Agriculture; Industry; Services
	managed				

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK — **NEGATIVE**

Suriname's growth was estimated growth at 0.1% in 2015 by the IMF. The country continues to suffer from depressed global commodity prices and the closure of the country's alumina refinery Suralco in 2015. The economy is projected to contract sharply in 2016, and real per capita income is projected to decline for the first time since 2000, while unemployment rises. Growth is forecasted at -7.00% in 2016 by the IMF.

INFLATION/ FX POLICY — **NEGATIVE**

Inflation rose to 37% in March 2016 due to the devaluation of the currency and utility tariff increase. Much of the inflation spike reflects a doubling in housing and utilities prices associated with the hike in electricity tariffs in October, 2015. There was a 21% devaluation of the currency in November in an effort to reduce pressure on public finances stemming from low commodity revenues and high pre-election spending. The new peg was increased from 3.30 to 4.0 Surinamese dollars per U.S. dollar. In March 2016, the currency was floated in an effort to narrow the spread between the parallel and official market rates which had persisted since the initial devaluation. This resulted in a further depreciation of the currency by approximately 60%. Overall, in cumulative terms, the official SRD/USD exchange rate has depreciated by some 90% since October 2015. Inflation is forecasted to reach 67.1% at the end of 2016.

EXTERNAL ACCOUNT — **NEGATIVE**

The current account deficit measured 15.6% of GDP in 2015 compared to a surplus of 5.7% of GDP in 2011 mainly due to the drop in mineral exports. Positively the deficit is expected to narrow to 8.7% of GDP in 2016. This is mainly due to a projected rise in gold exports as well as increases in gold and oil prices. A contraction in imports is also expected due to the economic downturn, currency depreciation and end of capital imports associated with the construction of the new gold mine. The deficit will be financed from funding by the IMF and other international financial institutions as well as FDI. FDI is projected to average 4.3% of GDP in 2016 – 2018. Gross official reserves have declined to USD302 million as of March 31, 2016 (1.7 months of imports), compared with more than USD1 billion in 2012 due to the fall in net exports and central bank intervention.

FISCAL ACCOUNT — **NEGATIVE**

In 2011, revenues from the sale of oil, gold and alumina accounted for 88% of exports and 40% of government revenue. The subsequent price declines and the closure of alumina refinery Suralco in late-2015 cut these revenues and resulted in the fiscal and external current account deficits. The fiscal deficit measured 8.8% of GDP in 2015 (7.9% of GDP -2014) falling from a surplus of 0.5% of GDP in 2011. The main factor contributing to the deficit has been the drastic drop in government mineral revenue as previously mentioned. Government spending also increased due to a 1.1% of GDP increase in the wage bill as a result of an election related surge in public sector employment in 2015.
Due to limited domestic private financing the government obtained a large loan from the central bank (15% of GDP – SRD2.5 billion) in September 2015. Approximately 40% was used for new financing while the remainder replaced existing government significantly lengthening its maturity and lowering the average interest rate. The new financing was used to pay down a large stock of domestic arrears and increase local currency liquidity. The government debt to GDP ratio now stands at 43.5% in 2015.
The fiscal deficit is estimated at 6.4% of GDP for 2016 and will be financed by external borrowing from international financial institutions (IFIs) and external commercial borrowing. Additional financing needs, including for the payment of domestic arrears and other debt payments, will also be financed by issuing T-bills to domestic banks and non-bank institutions.

CREDIT RATINGS

Fitch Ratings downgraded its ratings on Suriname from "BB-" to "B+" on 27 Feb, 2016 with a negative credit outlook. The agency's rationale was the deterioration of the country's external finances due to the shock of commodity export prices.
Standard & Poor's also downgraded its ratings on Suriname from 'BB-' to 'B+' with a negative outlook on 25 Apr, 2016. The downgrade reflected weakening external liquidity, fiscal flexibility and debt burden due to the rising fiscal and current account deficits.

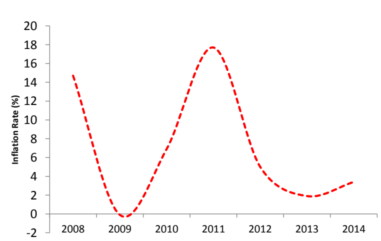
Outlook

Following the 21% devaluation in November 2015, the currency was floated in March 2016 in effort to narrow spreads between the official exchange rate and the parallel market rate which had continue to widen since the initial devaluation. Via a series of foreign exchange auctions introduced in March, and the subsequent authorization of commercial banks to determine exchange rates, Suriname has moved to a flexible and market-determined exchange rate. This will provide for greater foreign exchange flexibility in response to commodity price volatility. The public sector's external debt service ratio remains adequate, but international reserves have fallen by more than 50% since 2011. Reserve liquidity will remain tight until the Merian gold mine commences production and starts to generate export revenue. The structure of public finances remains weak – reflecting the government's narrow revenue base, vulnerability to commodity price volatility, and rigidity of the large public-sector wage bill (9.2% of GDP in 2015). Positively, the government began reducing expenditure and clearing arrears in 2H15, cut capital investment, and started a three-phase increase of the electricity tariff to remove the subsidy, worth 7.1% of GDP (2015). The authorities expect fiscal adjustment in 2016-2017 to be supported by institutional reforms to liberalize the energy sector, increase profitability of loss-making state-owned companies, and improve public-financial management with a new medium-term budgetary framework. However, there are implementation and downside political risks to the pipeline of pledged reforms. The opposition parties abstained from the 2016 budget vote, and cabinet statements in January cast doubt on continuation of the electricity reform. The austerity plan cuts capital investment to 2% of GDP for 2016-2017 during an economic recession. In Jan 2016, the government approached several multinational lenders such as the International Monetary Fund, World Bank, Caribbean Development Bank and Inter-American Development Bank for economic support to respond to shock of the depressed commodity prices. In April 2016, the IMF agreed with Suriname on a USD478 million stand-by facility. Also a large USD1.8 billion financing portfolio has been provided by the Islamic Development Bank (IsDB) to the country. Approximately 75% of these resources are planned for investments in the energy sector. The Merian gold mine became operational in Oct 2016 and can be expected to provide a boost to revenue generation in 2017 and going forward.

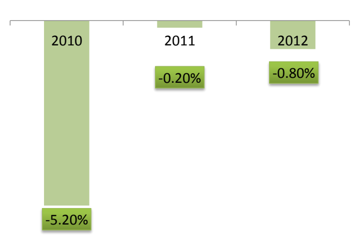
The IMF has forecasted growth at -7.0% in 2016.

First Citizens Research & Analytics holds a negative view on Suriname noting significant headwinds due to sustained low commodity prices.

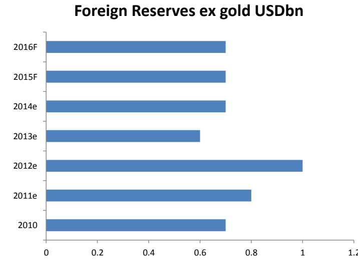
Avg. Inflation Rate 2008-2014 (YoY, %)



Central Government Balance/ GDP



Foreign Reserves ex gold USDbn



Sources: International Monetary Fund, Business Monitor International, Bloomberg